

Bonneville Power Administration  
RHWM Process Workshop – Addendum

## **RHWM Issue**

### **Issue:**

Whether the TRM construction of RHWMs inadvertently modified a public power protection embodied in the WNP-3 Settlement Agreement.

### **Background:**

After BPA suspended construction of WNP-3 in 1984, the four IOUs that held ownership shares of the plant sued BPA seeking compensation for unrecoverable costs. To settle this litigation, BPA, the four IOUs, and COUs reached an agreement regarding the IOUs' share of costs that included a sale of replacement power by BPA to the IOUs. While BPA had sufficient surplus power to sell to the IOUs at the time, the COUs were concerned that surplus power would not be available during the full term of the power sale. As such, a call option was included in the Settlement that allows the power sale to become an exchange of power if BPA requests. This provision in the Settlement assured that the responsibility for resource planning to serve the IOU sale was not placed on BPA or the COUs. Under the call option, BPA can request an amount of power equivalent to the IOU sale from the IOUs, albeit at the cost of some of the IOUs' highest cost resources. BPA can operate its system with or without the IOU resources based on current operational and economic considerations, but for long-term planning, the sale obligation would be offset by an equal amount of resource availability.

Since the mid-1990s, BPA has reflected operational realities in ratemaking, choosing to augment the federal system with market purchases rather than reflecting the expected costs of purchasing from the IOUs. Because the cost of augmentation has been much less than the costs of purchasing from the IOUs, rates are generally lower because of this ratemaking assumption.

The TRM construction of RHWMs is developed based on the ratemaking treatment of the WNP-3 obligation and resource. The TRM includes the WNP-3 sale as a Tier 1 System Obligation, but does not include the resource as a Tier 1 System Resource. The obligation for FY 2014-2015 is 91 aMW.

### **Questions for Consideration in Comments to BPA:**

A concern has been raised to BPA staff that the RHWM treatment of the WNP-3 sale and resource may create a resource planning obligation on COUs that the WNP-3 Settlement sought to mitigate. BPA staff is therefore asking for comment on these questions:

- 1) Should the WNP-3 resource be included as a Tier 1 System Resource for purposes of calculating RHWMs?
- 2) Assuming #1 is answered in the affirmative, would the inclusion of the WNP-3 resource in Table 3.3, Designated BPA Contract Purchases, constitute a change to the TRM requiring a customer vote and a 7(i) decision prior to including the WNP-3 resource, meaning that the change could not occur in the current RHWM Process? See TRM 3.1.3.4, "The list of contracts will not be changed for the duration of this TRM."

Bonneville Power Administration  
RHWM Process Workshop – Addendum

3) The WNP-3 Settlement expires in 2019. Because this affects only three RHWM determinations, assuming #1 is answered in the affirmative, would a workaround be more easily accomplished, such as setting the WNP-3 obligation to zero for RHWM purposes? There are Slice implications to this treatment; that is, the RHWM adjustment would be made to the Slice Simulator only when BPA actually receives the exchange power from the IOUs. Because BPA has not taken any exchange power 25 years, chances are this adjustment would not occur in Slice operations under the simulator. Slice customers may receive somewhat larger block amounts.

4) How would a change in the RHWM treatment of the WNP-3 exchange affect ratemaking and are these consequences reasonable and acceptable? While we do not contemplate a change in ratemaking procedures, this could result in an increase in Tier 1 obligations, resulting in some upward rate pressure.